

of their fair market value) to which section 301 applies, even though the exchange of common stock for common stock may be pursuant to a plan of reorganization under the terms of section 368(a)(1)(E) (recapitalization) and even though the exchange of common stock for common stock may be tax free by virtue of section 354.

(m) *Cancellation of indebtedness.* The cancellation of indebtedness of a shareholder by a corporation shall be treated as a distribution of property.

(n) [Reserved]

(o) *Distributions of certain property by DISC's to corporate shareholders.* See § 1.997-1 for the rule that if a corporation which is a DISC or former DISC (as defined in section 992(a)(1) or (3) as the case may be) makes a distribution of property (other than money and other than the obligations of the DISC or former DISC) out of accumulated DISC income (as defined in section 996(f)(1)) or previously taxed income (as defined in section 996(f)(2)), such distribution of property shall be treated as if it were made to an individual and that the basis of the property distributed, in the hands of the recipient corporation, shall be determined as if such property were distributed to an individual.

(p) *Cross references.* For certain rules relating to adjustments to earnings and profits and for determining the extent to which a distribution is a dividend, see sections 312 and 316 and regulations thereunder.

[T.D. 6500, 25 FR 11607, Nov. 26, 1960, as amended by T.D. 6752, 29 FR 12701, Sept. 9, 1964; T.D. 7084, 36 FR 267, Jan. 8, 1971; T.D. 7209, 37 FR 20800, Oct. 5, 1972; 38 FR 20824, Aug. 3, 1973; 38 FR 32794, Nov. 28, 1973; T.D. 7556, 44 FR 1376, Jan. 5, 1979; T.D. 8474, 58 FR 25557, Apr. 27, 1993; T.D. 8586, 60 FR 2500, Jan. 10, 1995; T.D. 8924, 66 FR 725, Jan. 4, 2001]

**§ 1.301-1T Rules applicable with respect to distributions of money and other property (temporary).**

(a) through (f). [Reserved] For further guidance, see § 1.301-1(a) through (f).

(g) *Reduction for liabilities—(1) General rule.* For the purpose of section 301, no reduction shall be made for the amount of any liability, unless the liability is assumed by the shareholder within the meaning of section 357(d)(1) and (2).

(2) *No reduction below zero.* Any reduction pursuant to paragraph (g)(1) of this section shall not cause the amount of the distribution to be reduced below zero.

(3) *Effective dates—(i) In general.* This paragraph (g) applies to distributions occurring after January 4, 2001.

(ii) *Retroactive application.* This paragraph also applies to distributions made on or before January 4, 2001 if the distribution is made as part of a transaction described in, or substantially similar to, the transaction in Notice 1999-59 (1999-52 I.R.B. 761), including transactions designed to reduce gain (see § 601.601(d)(2) of this chapter).

[T.D. 8924, 66 FR 725, Jan. 4, 2001]

**§ 1.302-1 General.**

(a) Under section 302(d), unless otherwise provided in subchapter C, chapter 1 of the Code, a distribution in redemption of stock shall be treated as a distribution of property to which section 301 applies if the distribution is not within any of the provisions of section 302(b). A distribution in redemption of stock shall be considered a distribution in part or full payment in exchange for the stock under section 302(a) provided paragraph (1), (2), (3), or (4) of section 302(b) applies. Section 318(a) (relating to constructive ownership of stock) applies to all redemptions under section 302 except that in the termination of a shareholder's interest certain limitations are placed on the application of section 318(a)(1) by section 302(c)(2). The term *redemption of stock* is defined in section 317(b). Section 302 does not apply to that portion of any distribution which qualifies as a distribution in partial liquidation under section 346. For special rules relating to redemption of stock to pay death taxes see section 303. For special rules relating to redemption of section 306 stock see section 306. For special rules relating to redemption of stock in partial or complete liquidation see section 331.

(b) If, in connection with a partial liquidation under the terms of section 346, stock is redeemed in an amount in excess of the amount specified by section 331(a)(2), section 302(b) shall first apply as to each shareholder to which it is applicable without limitation because of section 331(a)(2). That portion